

Bagehot | Staying airborne

Britain's globetrotting chancellor ponders the country's post-Brexit economic model



TO FLY in one of the Royal Air Force planes that ferry ministers about the world is to experience a corner of old, imperial Britain. Under a framed black-and-white picture of Balmoral Castle, uniformed pursers serve afternoon tea. A neat pile of tweed blankets sits in a basket, the seats and carpet are a faded royal blue and the wooden trim bears the queen's cipher ("EIIIR") in swirly letters. A photo of the plane somewhere in the Middle East illustrates the safety leaflets. Like the inside of Downing Street, it has the grand-shabby air of a posh hotel that has seen better days. The jet shudders and creaks through the air: Downton Abbey with jet engines attached.

Such were Bagehot's impressions on January 9th when he accompanied Philip Hammond, the chancellor of the exchequer, back from a visit to Dublin. Another was the plane's symbolism of Britain's reinvention over the past four decades; its shaping of the remnants of empire into a new economic role. Remnants like its merchant banks and insurance houses, universities, language, vast soft power and trusted legal system, which it successfully parlayed into specialisations in services and high-end manufacturing. From Margaret Thatcher onwards, governments of left and right strived for the right conditions: an open and flexible labour market, low inflation, a liberal regulatory regime, modest taxes and tariffs. Britain's prosperity was built on imperial traces, memories and networks that live on, and span the globe.

Of that Mr Hammond has more experience than most. Before entering politics he exported medical equipment and consulting services to Asia, Latin America and Africa. He has been foreign secretary. As chancellor he is travelling the world proclaiming that Britain's liberal business model can survive Brexit. Visiting Kuwait, Qatar and the United Arab Emirates recently, he says he found investors still enticed by its legal, financial, business and professional services, as well as plain familiarity: "They know the UK, they've got homes here, they feel comfortable."

Brexit, he says, demands two main things from policymakers. First: limit the damage. In a rebuke to his more gung-ho cabinet colleagues he warns: "If our businesses are cut off from those [European] supply chains, it isn't necessarily the case that tomorrow they'll stop producing axle parts and start making, I don't know, high-end suitcases for the Korean market." Building new

markets is slow, hard work. "You don't just wake up one morning and say: 'I think I'll take the Chinese market today.' You build. You build your product's presence, your business presence, your networks, your distribution capability, confidence in your brand. It all takes time." Hence the urgent need for clarity about Brexit. He compares British firms to patients in hospital: whether the news is good or bad, they want to know it. Hence, too, his fiscal policy. In November he ditched a plan to reach a surplus by 2020, giving himself room to cushion any shocks (though not this year, he says, if GDP growth hits the projected 1.4%).

Fasten your seat belts

So far, so "Spreadsheet Phil" (the chancellor has a reputation for dour competence). But he becomes exuberant on turning to the government's second Brexit-related job: building new sources of growth. He says Britain is better than Germany at moving fast to grab new opportunities—"We accept that things can change quickly"—citing London's success since 2002 at luring international firms put off New York by the Sarbanes-Oxley Act, which tightened America's corporate governance rules. What would a similar British coup look like now? Here he waxes optimistic about biotechnology, synthetic technology (creating new industrial materials) and "fintech" (where Britain's deep capital markets give it an edge even over Silicon Valley, he argues). He is sceptical about the claim by Andy Haldane, the Bank of England's chief economist, that 15m British jobs could be lost to robots. The costs of capital may rise, making human labour more competitive; firms and individuals adapt and find new work ("Didn't we have this discussion...20 years ago about shorthand typists?"). In any case, "If anywhere in Europe is going to get [a Google-type technology giant], culturally the UK is in the best position."

Your columnist was struck by the contrast with Theresa May. Ask the prime minister to name the country's economic strengths and she will probably mention the same things as her chancellor. But the two differ drastically on the costs they attach to them. For Mrs May, the dislocation caused by a freewheeling labour market, the excesses associated with deregulation, the rift between services-rich boomtowns and forgotten, post-industrial regions put their very legitimacy and sustainability in question. In a speech on January 8th she argued that the Brexit vote was about much more than EU membership: it was a rejection of "laissez-faire liberalism". Mr Hammond recognises no such crux: "Where's the evidence for the assertion that the Brexit vote was saying something about this or that or the other? It was saying something about Britain's membership of the European Union." For him, those costs can be fixed with the right policies, like better skills provision and the economic integration of two London-sized agglomerations: the English north and the Midlands.

This gap is about more than the differences between the job of chancellor and that of prime minister. It is part of a grand debate that Britain is having, without noticing, on the basic transaction at the heart of its post-imperial business model: more disruption (industrial, cultural, social) in return for more prosperity. Current arguments over immigration, integration, student visas, industrial policy, high pay (the Labour Party is flirting with the idea of a maximum wage) and, of course, Brexit are all ways of probing this. Perhaps it would help to acknowledge this fact more openly. Because one day, in spring 2019, Britain is due formally to leave the EU. It will have Brexited. The question, about which Mr Hammond has clearly thought more than most, will be: what now? ■